

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenbrg County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Muhlenberg County, Kentucky, for the year ended December 31, 2001.

We engaged Kapp & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC evaluated the Muhlenberg County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF KAPP & COMPANY, PLLC
AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY SHERIFF**

Calendar Year 2001

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MUHLENBERG COUNTY SHERIFF

Calendar Year 2001

Kapp & Company, PLLC has completed the Muhlenberg County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$32,287 from the prior calendar year, resulting in excess fees of \$463,144 as of December 31, 2001. Receipts increased by \$26,357 from the prior year and disbursements decreased by \$5,930.

Report Comment:

- The Sheriff And Fiscal Court Should Review Its Policies On Paying Overtime And Mileage To Deputies Of The Sheriff's Office

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

Drug Fund:

The Sheriff's office maintains a drug fund. The balance on January 1, 2001 was \$33,144. During the current year, the Sheriff received \$10,489 in receipts, and expended \$184. The ending balance as of December 31, 2001 was \$43,449.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Muhlenberg County Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
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Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff And Fiscal Court Should Review Its Policies On Paying Overtime And Mileage To Deputies Of The Sheriff's Office

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
October 4, 2002

MUHLENBERG COUNTY
JERRY D. MAYHUGH, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 17,292	
Revenue Cabinet	<u>2</u>	\$ 17,294

Circuit Court Clerk:

Sheriff Security Service	\$ 11,745	
Fines and Fees Collected	<u>5,663</u>	17,408

Fiscal Court		72,493
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County Clerk - Delinquent Taxes		3,738
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Commission On Taxes Collected		323,576
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Fees Collected For Services:

Auto Inspections	\$ 17,690	
Accident and Police Reports	339	
Carrying Concealed Deadly Weapon Permits	7,455	
Serving Papers	<u>27,637</u>	53,121

Other:

Transporting Prisoners and Patients	10,240	
Sheriff's Fees	50,922	
Miscellaneous	<u>2,000</u>	63,162

Interest Earned		<u>1,967</u>
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Total Receipts		\$ 552,759
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MUHLENBERG COUNTY
 JERRY D. MAYHUGH, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements

Operating Disbursements:

Other Charges-

Mileage and transporting Fees	\$	12,190	
Carrying Concealed Deadly Weapon Permits		5,015	
Miscellaneous		<u>157</u>	

Total Disbursements			\$	<u>17,362</u>
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Net Receipts			\$	535,397
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Less: Statutory Maximum	\$	70,064		
Sheriff's Incentive Training		<u>2,189</u>		<u>72,253</u>

Excess Fees Due County for Calendar Year 2001			\$	463,144
Payments to County Treasurer - Monthly				<u>463,144</u>

Balance Due at Completion of Audit			\$	<u><u>0</u></u>
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The accompanying notes are an integral part of the financial statement.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and the 6.41 for the last six months of the year.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Drug Fund

The Sheriff's office maintains a drug fund. The balance on January 1, 2001 was \$33,144. Receipts for the year totaled \$10,489, and disbursements were \$184. The balance on December 31, 2001 was \$43,449.

COMMENT AND RECOMMENDATION

MUHLENBURG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 2001

The Sheriff And Fiscal Court Should Review Its Policies On Paying Overtime And Mileage To Deputies Of The Sheriff's Office

The Sheriff's office does not submit a report to the fiscal court, in order for deputies to be paid for overtime incurred during transporting of prisoners. Upon further inquiries and observations, the auditor found:

- Fiscal Court will pay deputies for actual mileage up to a maximum mileage of 3,145 miles. If the deputy exceeds this mileage, the excess miles go into a mileage bank. If the deputy is consistently over the mileage limit, he is unable to be paid for those miles. If the deputy is under the maximum, then the deputy has the option of taking miles out of the mileage bank up to the maximum monthly mileage limitation. In addition, if the deputy elects to transport patients for a private institution, he clocks out for the period of time required to transport the prisoner and the mileage paid to the deputy is deducted from his monthly mileage or his mileage bank balance.

Fiscal Court does not pay for mileage over the limit noted above. The deputy receives mileage from the state (and the mileage is deducted from the deputy's mileage bank) for prisoners transported for the state. The auditor observed that a deputy who is required to transport a prisoner out of state does not receive wages/salary for the period of time, which would put him/her in overtime status. However, he/she is not paid for the time, food, or lodging, unless it is required air travel, by the county.

According to IRS publication 15 (Circular E), "generally, a worker who performs services for the Sheriff's office is considered an employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed". In IRS publication 15a (Employer's Supplemental Tax Guide), it explains that the "facts that provide evidence of the degree of control and independence fall into three categories: behavioral control, financial control, and the type of relationship of the parties". The criteria used for making this determination are explained in more detail in both publications. Based on the information in these two publications, we conclude that the sheriff's deputy used to transport prisoners is an employee since the Sheriff essentially controlled what he could do and how it would be done. For example, the sheriff supplied the mode of transportation, instructed what prisoner the deputy was to pick up, when he was to pick up this prisoner, and where the prisoner was to be picked up. Publication 15a further explains "an employee is generally guaranteed a regular wage amount for an hourly, weekly, or other period of time".

We recommend that the sheriff submit a report to the fiscal court, so that the transportation deputies are paid for actual time worked, including overtime. We also recommend that the Sheriff and Fiscal Court review its policy on mileage paid to deputies.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Muhlenberg County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated October 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff And Fiscal Court Should Review Its Policies On Paying Overtime And Mileage To Deputies Of The Sheriff's Office

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
October 4, 2002

